

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Howard Bancorp

Point of Contact:	George Coffman	RSSD: (For Bank Holding Companies)	3386910
UST Sequence Number:	818	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	5,983,000	FDIC Certificate Number: (For Depository Institutions)	57776
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	February 27, 2009	City:	Ellicott City
Date Repaid ¹ :	n/a	State:	Maryland

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

\$5MM of the funds received were down streamed to Howard Bank within the year of receipt. The remainder of the funds were down streamed to the bank in 2010. (Howard Bank is Bancorp's sole banking subsidiary.) Both infusions allowed the bank to increase the bank's small business lending

☒ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

The commercial real estate and residential mortgage portfolios grew in 2010 while the construction loan and commercial and industrial loan categories decreased. Borrowers are all local entities and are all small and medium sized businesses.

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☒ **Increase securities purchased (ABS, MBS, etc.).**

The bank modestly increased its liquidity in 2010 maintaining larger balances at the Federal Reserve to ensure availability for lending opportunities.

☒ **Make other investments.**

The bank invested in one of its own branch facilities and an adjoining retail/ office center with the latter available to house a growing client services staff.

☒ **Increase reserves for non-performing assets.**

The bank continued to provide for both a general allowance for new and increased credit facilities as well as to make specific provisions for some small number of troubled loans

☐ **Reduce borrowings.**

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☒ **Increase charge-offs.**

There was a modest number of charge-offs but given the stabilization in the economy, the impact on the bank was less than in 2009.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☒ **Held as non-leveraged increase to total capital.**

The additional capital down-streamed to the bank allowed the bank to improve capital ratios to well above the well capitalized ratio in response to regulatory suggestions that additional capital was appropriate for a rapidly growing institution focused on small business lending.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Our borrowers are all local entities and are all small and medium sized businesses. While the bank originated new loans and/or advanced under existing facilities for borrowers by \$81MM, we saw \$76 MM in credit facility reductions due to a combination of scheduled amortizations, more cautious borrowing from slower growing clients, and some forced repayments from troubled borrowers. However, even the slower growth experienced in 2010 allowed the bank to stay actively involved in lending to our targeted small business customers - not calling loans to existing borrowers, meeting the working capital needs of existing borrowers, and acquiring new business borrowers most of whom felt ignored by larger institutions. We were also able to keep in place small residential mortgage programs that focused on community public servants- teachers, police officers, firefighters, and hospital workers). We did not have to stop lending as a small portion of our loan portfolio came under stress and required more significant provisioning. Normally growing while provisioning places so much strain on the capital of a bank that one or the other must be restrained. We were able to shore up our allowance, recognize some diminishment in asset values and still create new, high quality loan assets only because of the CPP capital infusion. We were able to satisfy our regulatory agencies that we have the capital to continue to lend. We were also able to defer going to the capital markets to undertake these activities at a time when new share issuance would have resulted in substantial dilution for shareholders. Given our largely local community shareholder base, this meant that we were able to improve the long term investment returns for these local shareholders and to defer traditional capital raises to a more opportune, if not ideal, time period. We have been able to grow staff- especially credit and client support staff in late 2009 and early 2010. We were also able to continue to make contributions to local not for profits (approximately \$50,000).

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

See above

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

See above